



CALIFORNIA STATE PERSONNEL BOARD

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ARNOLD SCHWARZENEGGER, Governor



February 12, 2010

Ms. Ana J. Matosantos, Director
c/o Department of Finance
Office of State Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento, CA 95814

Dear Ms. Matosantos:

We are providing this letter in connection with your audit of the basic financial statements of the State of California, as of June 30, 2009, and for the period then ended. We are responsible for assuring that our Department's financial reports conform with legal and regulatory requirements and the State Administrative Manual. The State Controller's Office relies upon state agency financial reports as well as their own records to prepare the general purpose financial statements of California. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control, and designing and implementing programs and controls to prevent and detect fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm to the best of our knowledge and belief, as of February 12, 2010, the following representations:

1. The financial statements referred to above are fairly presented in conformity with generally accepted accounting principles in the United States of America and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
2. We have made available to you all financial records and related data, and all audit or relevant monitoring reports, if any, received from funding sources.
3. We have a process to track the status of audit findings and recommendations.
4. We have identified to you any previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and the corrective actions taken to address significant findings and recommendations.

5. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
6. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices that could have a material effect on our financial statements.
7. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or the schedule of federal assistance.
8. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud. We have no knowledge of any—
 - a. Fraud or suspected fraud involving management or employees who have significant roles in internal control.
 - b. Fraud or suspected fraud involving others that could have a material effect on our financial statements.
 - c. Allegations of fraud or suspected fraud affecting the State of California received in communications from employees, former employees, analysts, regulators, or others.
9. We have no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or fund equity.
10. The following, if any, have been properly recorded or disclosed in our financial statements:
 - a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, guarantees, and amounts receivable from or payable to related parties.
 - b. Guarantees, whether written or oral, under which the State of California is contingently liable.
 - c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates are reasonable in the circumstances, consistently applied, and adequately disclosed.
 - d. The financial statements include all component units as well as joint ventures with an equity interest and all other joint ventures and other related organizations.
 - e. Arrangements with financial institutions involving repurchase, reverse repurchase, or securities lending agreements, compensating balances, or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements.
 - f. Agreements to repurchase assets previously sold.
 - g. Amounts due to other governments for services mandated by the State during fiscal year 2008-09 or earlier, even if no appropriation has been made to satisfy the obligations.

11. We are responsible for compliance with laws, regulations, and provisions of contracts and grant agreements applicable to it, including tax or debt limits and debt contracts; and we have identified, and disclosed to the auditor all laws, regulations, and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
12. There are no—
 - a. Violations or possible violations of the Budget Act, laws and regulations (including those pertaining to adopting and amending budgets), provisions of contracts or grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in our financial statements or as a basis for recording a loss contingency, or reporting on noncompliance.
 - b. Reservations or designations of fund equity that were not properly authorized or approved.
13. The State of California/Department has satisfactory title to all owned assets, and there were no liens or encumbrances on such assets nor has any asset been pledged as collateral.
14. The Department has complied with all aspects of contractual agreements that would have a material effect on our financial statements in the event of noncompliance.

To the best of our knowledge and belief, no events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements, schedule of federal assistance, or schedule of findings and questioned costs, except for the following items listed below:

Sincerely,

Signed Pouneh Tehrani
Pouneh Tehrani, Chief, ASD

Date: February 12, 2010

Signed Janet Narnini
Janet Narnini, Fiscal Officer

Date: February 12, 2010